

Report
of the
Examination of
Eye Care of Wisconsin, Inc.
Fox Point, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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October 25, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

EYE CARE OF WISCONSIN, INC.
Fox Point, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Eye Care of Wisconsin, Inc. (the LSHO) was conducted in 1995 as of December 31, 1994. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

The LSHO is not separately audited by an independent public accounting firm.

II. HISTORY AND PLAN OF OPERATION

Eye Care of Wisconsin, Inc. (ECW), can be described as a for-profit, individual practice association (IPA) model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the IPA model, the LSHO provides care through contracts with otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated March 29, 1986 as a ch. 613, Wis. Stat., not-for-profit corporation and commenced business April 1, 1989. The Independent Association of Optometrists (IAO) controlled the LSHO, until October 22, 1997 when it was converted to a stock corporation. All ECW shares were initially owned by IAO, but in May of 1998 IAO distributed shares to some IAO members. IAO owns 54% of ECW shares and eight members own 46%.

According to its business plan, the LSHO's service area is comprised of all counties in Wisconsin. The company provides subscriber-group member enrollees with covered vision care through contracts with providers. Services are rendered by individual optometrist practitioners who are associated with ECW. An enrollee may see any of the ECW affiliated optometrists to provide the enrollee's vision care and designation of a primary care provider is not required. The provider agrees to provide covered vision care benefits in exchange for the discounted fee-for-service paid by ECW.

The company has one vision service agreement with 24 subscriber groups. All ECW providers enter into an optometrist service agreement to provide services to subscriber enrollees. Each optometrist service agreement remains in force from date of execution without reference to a fixed contract term, until terminated under contract provisions. The agreement may be terminated by either party by written notice at least 90 days prior to the intended effective date of termination. Termination may also occur, in the event of a material breach by one party, following

60 days' written notice of the breach by the nonbreaching party if the breach remains uncured. The agreement is terminated in the event of revocation of the company's certificate of authority, or upon final administrative ordering suspending or revoking the license of either party. A list of participating providers is included in Exhibit A.

The contracts include hold-harmless provisions for the protection of policyholders. The provider may not bill, charge, collect a deposit from seek remuneration or compensation from, file or threaten to file with a credit reporting agency or have any recourse against an enrollee or any person acting on the enrollee's behalf, for health care costs for which the enrollee is not liable.

The LSHO offers a limited range of health care coverage, which may be changed by riders to included deductibles and copayments. The following basic health care coverages are provided:

- A. Vision examination every 12 months
- B. Frames priced up to \$45.00 retail, replacement allowed every 24 months.
- C. Lenses (including single vision, bifocal, trifocal, and lenticular) every 12 months provided there is a prescription change necessitating new lenses.
- D. Contact lens allowance up to \$100.00 every 24 months.

Covered services that are provided by contracting providers are paid in full, subject to specified maximum payment limits. Under certain plan options, coverage is also provided for services delivered by a non-ECW provider outside the company's geographic service area, with reduced payment limits.

Participating providers agree to arrange for the delivery of covered service to any eligible enrolled member, at the same level, scope, and quality of care provided to all other patients of the provider. In non-emergency cases, services are rendered upon written or verbal referral by the company. In cases of emergency, the provider agrees to notify the company within 24 hours after provision of covered services.

ECW currently markets to groups only. The plan is marketed primarily by the company president and a number of agencies. The agents act as brokers for the ASO business

and are paid a monthly commission. An actuary originally developed ECW premium charged and capitation rates paid.

ECW has participation agreements with PrimeCare Health Plan, Inc. (n/k/a UnitedHealthcare of Wisconsin, Inc.), Humana Insurance Company, Humana Wisconsin Health Organization Insurance Corporation, Empesys Wisconsin Insurance Company, and Employers Insurance of Wausau (collectively “the insurers”). Based on these agreements, ECW will arrange for providers to render services to members of the insurers benefit plans. ECW is paid capitation rates as reimbursement for most services, however some services are paid according to fee schedules. ECW is solely responsible for compensating providers for all health services. Capitation payments are calculated based on the number of members and the benefit contracts of the insurers. Revenues collected under these agreements are reported as “Risk Revenue” on ECW’s annual statement.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Three directors are elected annually to serve a 3-year term. Officers for the board are elected at the board's annual meeting. Members of the LSHO's board of directors are also members of the board of directors of the Independent Association of Optometrists. The board members currently receive \$100 per board meeting for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Patrick Cashin Mequon, WI	Doctor of Optometry	2003
Marvin Scheffrin Milwaukee, WI	Doctor of Optometry	2002
Barry Dahlgren Milwaukee, WI	Doctor of Optometry	2003
Paul Godich Milwaukee, WI	Doctor of Optometry	2002
John Regner Kenosha, WI	Doctor of Optometry	2000
Daniel DeWinter Muskego, WI	Doctor of Optometry	2000
Stephen Waclawski Milwaukee, WI	Doctor of Optometry	2000

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2000 Compensation
Patrick Cashin, OD	President	\$124,861
Marvin Scheffrin, OD	Treasurer	\$26,000
Barry Dahlgren, OD	Secretary	*

* Dr. Dahlgren receives no compensation from ECW for his duties as an officer of the company

Committees of the Board

The LSHO's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Quality Assurance Committee

Paul Godich, OD, Chair
John Hall, OD
Eric Knight, OD
Stephen Waclawski, OD
Dave Ziegler, OD

Peer Review Committee

Paul Godich, OD, Chair
John Hall, OD
Eric Knight, OD
Stephen Waclawski, OD
Dave Ziegler, OD

The LSHO has its own employees. A list of employees and a brief job description is included in Exhibit B. In addition, ECW has an administrative service agreement with Cyganiak Planning, Inc. (referred to as Administrator). Pursuant to the agreement the Administrator will provide all personnel, equipment, and facilities necessary to the performance of its duties and will bear the entire cost thereof. The Administrator will provide the following services:

- Obtain, maintain, and update eligibility records
- Prepare and mail premium statements
- Reconcile premium statements
- Terminate policyholders, covered participants, or employer/member unit of group enrollment
- Maintain a principle administrative office
- Keep books and records of all transactions
- Pay agent commissions
- Collect all insurance charges or premiums
- Remit all charges and premiums due, less the amount of the total monthly commission and marketing fee, to ECW monthly

Based on the agreement, ECW agrees that the Administrator will charge the policyholder, covered participants, or employer/member unit of a group enrollment agreement a maximum billing fee of \$15 for performing services hereunder.

The Administrator shall defend, indemnify, and hold ECW harmless from any and all claims, demands, causes of actions, and damages arising out of Administrator's performance. The Administrator is bonded to provide protection to ECW against loss by acts of theft, fraud or dishonesty, and error and omissions.

ECW also has a marketing agreement with the Administrator under which both parties will market and sell a prepaid Vision Insurance Program. The Administrator is solely responsible for developing marketing strategies to target sales of the Vision Insurance Program for members and prospective members of Wisconsin Insurance Benefit Trust. Wisconsin Insurance Benefit Trust is a program that allows employers who are members to purchase group insurance through the trust. The Administrator will become knowledgeable about all underwriting requirements ECW has set forth and agrees to adhere to the requirements when marketing and enrolling groups in the Vision Insurance Program. The Administrator may not modify any term or condition of the policy or group enrollment agreement or waive any provision or benefit of the Vision Insurance Program. The Administrator is only allowed to use such advertising materials pertaining to the business enrolled in the Vision Insurance Program, as provided by or approved in writing by ECW in advance of their use.

The Administrator will bear its own expenses associated with the marketing of the Vision Insurance Program. ECW will bear the cost of preparing printed marketing materials such as, brochures and applications, provider directories, proposals, administrative materials, folders and any other items as agreed upon by ECW and the Marketing Organization. The Administrator is paid a monthly marketing fee equal to 6% of the premiums paid.

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

An LSHO, which provides hospital services, must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

The LSHO is provided with corporate insurance coverage under the contract listed below:

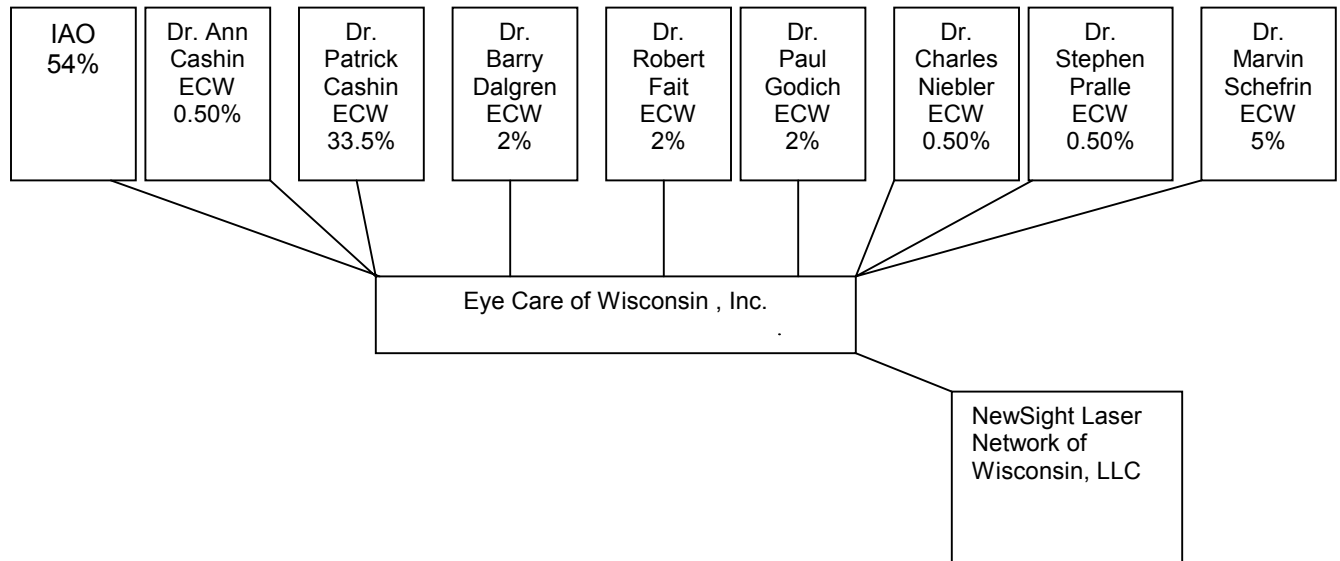
Type of Coverage	Policy Limits
Directors' and officers' liability	\$1,000,000
Professional liability	700,000
Crime/Fidelity	17,500

The above coverages are issued to Independent Association of Optometrists and Eye Care. The company was unable to provide evidence of fidelity bond and multi-peril insurance (see "Summary of Current Examination Results" for further comment).

IV. AFFILIATED COMPANIES

ECW is a member of a holding company system. Its ultimate parent is Independent Association of Optometrists (IAO) and eight individual members. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of ECW follows the organizational chart.

Holding Company Chart As of December 31, 2000



Independent Association of Optometrists

IAO is a Wisconsin non-stock membership corporation organized under Chapter 181 of the Wisconsin Statutes. IAO was retained as an independent physician association (IPA) able to contract with out of state provider groups. Pursuant to the plan of reorganization IAO transfer substantially all of its assets, contracts and liabilities to ECW. Currently IAO is a holding company that is inactive. At this time, IAO has no contract risk or fee for service. The company holds 54% of ECW stock. The same individuals that own ECW also own IAO.

NewSight Laser Network of Wisconsin, LLC

NewSight Laser Network of Wisconsin, LLC (NewSight) is a limited liability company organized under ch. 183 of the Wisconsin Statutes. The company has professional optometrists

that perform pre-op and post-op services for refractive laser eye surgery patients. The company is owned by the shareholders of Eye Care of Wisconsin, Inc. As of December 31, 2000, the company's unaudited financial statement reported assets of \$10,633, liabilities of \$37,378, and total equity of \$(26,745). Operations for 2000 produced net income of \$3,449.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2000, annual statement to the commissioner of insurance. Also included in this section are schedules which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Eye Care of Wisconsin, Inc.
Assets
As of December 31, 2000

Current Assets:

Cash	\$269,694.67	
Miscellaneous receivable	<u>9,263.15</u>	
Total current assets		\$278,957.82

Other Assets:

Receivable from Laser LLC	<u>5,580.23</u>	
Total other assets		5,580.23

Property and Equipment--Net:

Furniture and equipment	542.70	
Leasehold improvements	2,792.11	
EDP equipment	5,026.77	
Other property and equipment	<u>442.34</u>	
Total property and equipment		<u>8,803.92</u>

Total Assets		<u>\$293,341.97</u>
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**Eye Care of Wisconsin, Inc.
Liabilities and Net Worth
As of December 31, 2000**

Current Liabilities:

Claims payable	\$152,536.68	
Accrued payroll	<u>15,000.00</u>	
Total current liabilities		<u>\$167,536.68</u>

Total Liabilities	167,536.68
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Net Worth:

Common stock	100.00	
Paid-in surplus	124,651.47	
Retained earnings/fund balance	<u>1,053.82</u>	
Total net worth		<u>125,805.29</u>

Total Liabilities and Net Worth	<u>\$293,341.97</u>
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Eye Care of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2000

Revenues

Premium	\$187,164.12	
Risk revenue	2,025,186.19	
Investment	8,260.72	
Loss from Laser LLC	<u>(31,797.57)</u>	
Total revenue		\$2,188,813.46

Provider Expenses

Professional services	<u>\$1,599,125.04</u>	
Subtotal		1,599,125.04

Administrative Expenses:

Administrative expenses	<u>588,526.10</u>	
Total administrative expenses		<u>588,526.10</u>

Total expenses		<u>2,187,651.14</u>
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Income/(loss)		1,162.32
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Extraordinary Item (Prior Years Depreciation)		<u>(7,055.70)</u>
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Net Income/(Loss)		<u>\$ (5,893.38)</u>
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Eye Care of Wisconsin, LLC
Statement of Net Worth
As of December 31, 2000

Net worth, beginning of year	\$131,698.67
Increase (decrease) in retained earnings/fund balance:	
Net Income/(Loss)	(5,893.38)
Net worth, end of year	<u>\$125,805.29</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Risk Revenue	Medical Expenses Incurred	Net Income
1995	\$20,882	\$11,195	\$9,687	\$199,610	\$ 0	\$ 183,955	\$ 7
1996	91,584	81,407	10,177	252,946	0	187,552	490
1997	177,569	170,898	6,671	271,941	0	187,709	1,581
1998	165,852	146,968	18,884	228,068	0	71,724	7,126
1999	457,997	316,298	131,699	175,914	1,902,941	1,512,918	(6,850)
2000	293,342	167,537	125,805	187,164	2,025,186	1,599,125	(5,893)

Enrollment for the years under examination:

Year	Members
1995	3,289
1996	5,748
1997	5,681
1998	6,759
1999	5,858
2000	6,727

The company has been operating near break-even for the examination period. Due to the combining of IAO and ECW operations, the company's revenues and expenses increased significantly in 1999. Enrollment in the plan, excluding UnitedHealthcare and Humana enrollees, decreased in 1999 but recovered in 2000. As noted in the current examination findings, the company did not account for Premium Earned correctly. The examination determined Premium Earned in 2000 to be approximately \$205,000, which is more in line with the increase in enrollment.

Reconciliation of Net Worth per Examination

The following schedule is a reconciliation of net worth between that reported by the LSHO and as determined by this examination:

Net worth December 31, 2000,
per annual statement \$125,805

	Increase	Decrease	
Office Furniture & Equipment	\$	\$ (839)	
Computer Equipment		(2,541)	
Reorganization Costs		(4,755)	
Leasehold Improvements	527		
Advance to Laser, LLC		(37,378)	
Loss in Subsidiary	31,798		
Premium	17,411		
Advance Premium		(402)	
Premium Receivable	2,452		
Investment Income	2,705		
Investment Income Receivable	2,347		
Accounts Receivable		(56)	
Loans Receivable – Officers		(500)	
Loans Receivable – Others		(5,336)	
Loans Receivable – Mark Faby	<u> </u>	<u>(3,372)</u>	
 Net increase or (decrease)	 <u>\$57,240</u>	 <u>\$(55,179)</u>	 <u>2,061</u>
 Net worth December 31, 2000, per examination			 <u>\$127,866</u>

Examination Reclassifications

	Debit	Credit
Cash in Bank - Savings	\$	\$75,000
Restricted Cash	75,000	
Office Furniture & Equipment	1,748	
Computer Equipment	1,818	
Reorganization Costs		774
Leasehold Improvements		2,792
Claims Payable		\$12,956
Accounts Payable	<u>12,956</u>	<u> </u>
 Total reclassifications	 <u>\$91,522</u>	 <u>\$91,522</u>

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were sixteen financial and four market conduct recommendations. Specific comments and recommendations are in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

Financial

1. Management and Control—It is recommended that the company hold its annual meeting in accordance with its bylaws.

Action—Noncompliance see comments in the summary of current examination results.

2. Management and Control—It is recommended that the directors be elected to the board of directors on an annual basis at the company's annual meeting in conformity with company bylaws and with s. 611.52 (2), Wis. Stat.

Action—Noncompliance see comments in the summary of current examination results.

3. Management and Control—It is recommended that the company keep separate minutes for the IPA and LSHO.

Action—Compliance.

4. Management and Control—It is recommended that the company follow the provisions of the contracts it has in place with the IPAs.

Action—No longer applicable

5. Management and Control—It is recommended that the company follow the business plan as filed with OCI.

Action—No longer applicable

6. Management and Control—It is recommended that the company file biographical data of its officers and directors as specified by s. Ins 6.52, Wis. Adm. Code.

Action—Compliance.

7. Conflict of Interest—It is recommended that the company adopt a system for conflict of interest disclosure, that conflict of interest questionnaires be completed annually by officers, directors, and key employees, and that completed disclosure forms be retained in company records from examination to examination.

Action—Noncompliance see comments in the summary of current examination results.

8. Cash—It is recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for one year.

Action—Noncompliance see comments in the summary of current examination results.

9. Cash—It is recommended that the checks have two signatures on checks above a specified amount.

Action—Compliance.

10. Cash—It is recommended that the company complete the reconciliation of bank statements on a monthly basis with a review for proper signature and endorsements.

Action—Compliance.

11. Cash—It is recommended that the company ensure that the bank accounts are in the name of the proper affiliate.

Action—No longer applicable

12. Claims Payable—It is recommended that the company not pay claims for contracts that are on a capitation basis; the capitation should be paid to the provider and the provider should be paying the claims to the subcontractors.

Action—No longer applicable

13. Accounts and Records—It is recommended that the company set up the proper accounting records, cash receipts and disbursements journal, general journal, and general ledger, and complete the financial records on a monthly basis.

Action—Compliance.

14. Accounts and Records—It is recommended that the company record the proper information on the annual statement, income statement, and general ledger for income and expenses by type of accounts.

Action—Compliance.

15. Insurance Coverage—It is recommended that the company attain the proper insurance coverage to protect the assets of the company.

Action—Partial compliance see comments in the summary of current examination results.

16. Advance Premiums—It is recommended that the company establish a liability for premium received in advance.

Action—Noncompliance see comments in the summary of current examination results.

Market Conduct

- M1. Policy Form Filings—It is recommended that the Plan resubmit its master contract (MC-1) and certificate of coverage (MH-1) to OCI for review and approval within 90 days of the adoption of the examination report and include language in its policy forms that complies with ss. 632.896 and 631.28, Wis. Stat., and ss. Ins 3.52 (10) (e) and 6.85, Wis. Adm. Code.

Action—Partial compliance see comments in the summary of current examination results.

- M2. Marketing—It is recommended that the Plan identify all advertisements in its advertising file by means of a form number as required by s. Ins 3.27 (26), Wis. Adm. Code.

Action—Noncompliance see comments in the summary of current examination results.

- M3. Marketing—It is recommended that the Plan use its full corporate name, Eye Care of Wisconsin, Inc., in all of its advertisements as required by s. Ins 3.27 (12), Wis. Adm. Code.

Action—Noncompliance see comments in the summary of current examination results.

- M4. Provider Agreements—It is recommended that the Plan submit to OCI for review within 90 days of the adoption of the examination report a copy of an amended Optometrist Provider Agreement which includes language requiring the provider to identify complaints and grievances and to forward these to the Plan for recording and resolution as required by s. Ins 3.52 (10) (g) 2, Wis. Adm. Code.

Action—Compliance.

Summary of Current Examination Results

Management and Control

The company's articles of incorporation and bylaws were reviewed for compliance with the rules and regulations of the state of Wisconsin. It was noted that the company had not filed some amendments to its bylaws and articles of incorporation as noted below.

The company has notified the Office of the Commissioner of Insurance (OCI) of a change of address for the registered office of the corporation, but did not update its articles of incorporation. It is recommended that the company update its articles of incorporation and file an amendment to Article VIII concerning the location of its corporate office.

It also was noted that the company amended its bylaws during the period under examination. The board amended Section 3.01 to state that six members of the board must be O.D.'s. The term of each member will be 3 years. The board also voted to change the bylaws to state "that the board members may be both Optometrists and Ophthalmologists in the state of Wisconsin." The company did not update its bylaws to reflect these changes nor did the company file this amendment with the OCI. It is recommended that the company keep its bylaws up to date and file any amendments to their bylaws with the commissioner pursuant to s. Ins 611.12 (4) Wis. Stat.

During the review of the minutes of the board of directors it was noted the company was not holding its annual meetings in accordance with its bylaws. It is again recommended that the company hold its annual meeting in accordance with its bylaws. Also, during the review of the minutes of the board of directors, it was noted that the directors were not being elected annually in accordance with the company's bylaws. It is again recommended that directors be elected to the board of directors on an annual basis at the company's annual meeting in conformity with company bylaws and with s. 611.52 (2), Wis. Stat.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflict or is likely to

conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has not adopted an adequate procedure for disclosing potential conflicts of interest. For the period of examination officers, directors, and key employees initially completed conflict of interest questionnaires noting any possible conflicts. In subsequent years officers, directors, and key employees merely signed a blank sheet of paper not noting any possible conflicts. Also not all conflict of interest questionnaires and/or sheets were available for review for the period under examination. It is again recommended that the company adopt a system for conflict of interest disclosure, that conflict of interest questionnaires be completed annually by officers, directors, and key employees, and that completed disclosure forms be retained in company records from examination to examination.

Affiliated Companies

It was noted during the examination that Eye Care of Wisconsin, Inc. did not file Form B and Form C which was due to the Office Of The Commissioner Of Insurance June 1, 2001 for the year of 2000. The Form B registration statement discloses the ultimate controlling person in the insurance holding company system. This form also includes biographical information of the controlling person, transaction or agreements, any litigation proceedings, and the controlling person's financial statements. Form C is a brief description of all items in the annual registration statement. This form should make specific references to item numbers in the annual registration statement and the terms contained therein. It is recommended that the company file the required information on Form B and on Form C pursuant to s. 617.11, Wis. Stat. and s. Ins 40.15 Wis. Adm. Code.

The examination noted that ECW has been providing administrative services to NewSight. The examination disclosed that there is no administrative service agreement between the two companies for these services performed by ECW on behalf of NewSight. It was also noted that the company did not have an administrative service agreement with one of its IPA's. This IPA performs services for the company including answering phones and other clerical services. The company has been reimbursing the IPA for these services. Section 617.21, Wis.

Stat. requires transactions between affiliates be “arms-length” and properly recorded on the books and records of the insurer. Payments for services that are not provided under a contract are not considered to be arms-length transactions. It is recommended that the company formally execute cost-sharing agreements with affiliates for allocation and/or sharing of expenses. The company should note that such agreements need to be disclosed on the Form B discussed previously and may be required to be filed with the Commissioner in advance.

Corporate Records

During the review of the provider service agreement between Independent Care, Inc. (ICARE) and ECW the examination determined the agreement terminated December 31, 1995. The agreement does not automatically renew and the company did not formally extend the term. It was also noted that neither the agreement nor an amendment regarding the hold harmless clause were signed by ICARE. Other instances where the company did not properly execute agreements include:

- the company had not signed a group contract and another group contract was not signed by either the group or the company
- two provider agreements did not have an effective date
- one provider did not have an agreement at all
- Also one agreement was not signed by ECW and this particular provider also did not complete the amendment regarding the hold harmless clause.

It is recommended that the company have complete, signed copies of all currently active agreements and that the company maintains these agreements.

During the period under examination it was determined that company personnel had received bonuses. These bonuses were not discussed in the minutes nor were they mentioned in the employee handbook. It is recommended that employee benefits be discussed and approved by the board prior to payment.

Business Plan

The company was initially granted a certificate of incorporation and authority on the basis of a business plan filed with and approved by OCI. Business plan requirements for a limited service insurance corporation such as Eye Care of Wisconsin, Inc. are provided in s. Ins 9.05, Wis. Adm. Code. OCI evaluates the business plan to determine that the company organization,

capitalization, and operations will conform to applicable statutes and rules and serve the public interest.

An LSHO's business plan includes its bylaws, articles of incorporation, the forms to be used for any contracts between the corporation and its members or other persons concerning the provision of services to insureds, marketing methods, and other relevant documents or information required by the Commissioner. As provided in s. Ins 9.06 (1) Wis. Adm. Code, all substantial changes, alterations, or amendments to the business plan must be filed with the Commissioner at least 30 days prior to their effective date, and are subject to disapproval by the Commissioner.

Examination review disclosed modifications to the company's business plan during the years under review, which were not properly filed with the Commissioner of Insurance. Specifically, the company amended the Optometrist Provider Agreement so that the determination or the percentage of withholds was not specified. Optometrist Provider Agreements from the prior exam included the determination and the withhold percentage on an addendum page. It is recommended that the company file with the Commissioner of Insurance all amendments and modifications to its business plan in compliance with s. Ins 9.06 (1), Wis. Adm. Code.

Budget

The budget provided by management shows projected figures over a three-year period. Per company personnel, the company does not have management reports that compare projected figures with the actual figures that occurred. It is recommended that the company develop management reports that compare budget estimates to actual figures.

Cash

During the review of the cash procedures it was noted that the company has a set limit that requires two signatures for checks. However the amount seems extremely high considering the size of the company along with the amount of its net worth and asset balances. It is recommended that the company review its procedures requiring two signatures on all checks that exceed a stated amount. Also during the review of the company's cash procedures it was noted that the company has a bulk of blank checks presigned by the president when he is

expected to be away from the office for a period of time. These presigned checks are kept in a locked file drawer. The checks can then be printed and mailed out. Management states that the purpose of this is to pay bills that will be coming due. However, this is a weakness in internal control procedures, especially considering the high dollar amount allowed for checks that require only one signature. It is recommended that the company discontinue the practice of pre-signing blank checks. The company may choose to have a mechanical signature as long as proper internal controls are in place.

While reviewing the company's bank reconciliation a deposit in transit was listed, however it was not included in the company's bank statement. When the examiner inquired about the deposit in transit it was learned that the company had received the deposit, but had not removed the deposit in transit from the bank reconciliation. It is recommended that the company identify and verify reconciling items on a timely basis.

Pursuant to ch. 177, Wis. Stat., Wisconsin companies are required to report and submit abandoned tangible property to the state of Wisconsin. The company has no procedures or policies established to assure compliance with this requirement. It is again recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for one year. The examination disclosed that the company was removing checks from the outstanding checklist that had not cleared the bank and writing them back into income. It is recommended that checks that have not cleared or have been voided remain on the outstanding checklist until they have either cleared the bank, been voided and reissued, or are placed in a liability account for unclaimed funds.

The examination determined that in order for the company to obtain a letter of credit, the company had to pay a fee to the bank and was required to have a certificate of deposit of \$75,000 on deposit at the bank as collateral. This \$75,000 certificate of deposit is listed in the company's cash account. However this certificate of deposit is considered to be restricted based on the fact that the funds may not be available to pay policyholder claims or other general obligations of the company. Therefore, the C.D. should have been disclosed on Schedule E-2 of

the annual statement. It is recommended that the company fill out Schedule E-2 of the annual statement correctly and list special deposits which are not for the benefit of all policyholders, claimants and creditors of the company as required by the NAIC Annual Statement Instructions.

The examination determined that the company had a petty cash account. This account is used mainly for postage, cards, emergency office supplies, and is kept in a locked drawer. However this account is not included on the company trial balance. It is recommended that the company report a petty cash account on the trial balance.

Investment Income

The examination's review of the company's investment income noted that the company was not properly accruing for interest earned but not yet received. It is recommended that the company establish procedures to properly accrue for investment income. Due to the company not properly accruing, investment income was understated by \$2,705. The examiner also found that the company had an investment income receivable of \$2,347. This adjustment is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination." The company did not properly report the investment income receivable on the annual statement. According to the NAIC Annual Statement Instructions investment income earned but not yet received must be reported in the annual statement on the asset page and Schedule F. It is recommended that the company report its investment income receivable on the correct line on the annual statement in state accordance with the NAIC Annual Statement Instructions. It is further recommended that the company fill out Schedule F pursuant to the NAIC Annual Statement Instructions.

Accounts and Records

During the examination it was noted that the company had not retained documentation as required by s. Ins 6.80 (4), Wis. Adm. Code. The following is a list items that the company could not produce or did not maintain:

- Claims received by the company are electronically scanned. The company could only produce part of the claim for one claim that was selected during audit testing. Management represented that the entire claim was scanned in, however at different times. The company could not produce the other part of the claim. Claim records must be maintained from examination to examination.

- The company was unable to provide documentation supporting the property and equipment balance on the annual statement. The company should maintain these records in a permanent file.
- The company did not retain invoices for all disbursements made during the examination period. Invoices must be kept from examination to examination.
- The company does not maintain group numbers for its groups, contracts for all groups, and group applications. These need to be maintained for as long as the policies remain in force.
- The examination noted that the company does not maintain receipts for expenses that are reimbursed by the company to its employees. Receipts must be retained from examination to examination.
- The examination noted that the company did not maintain bank statements for two of its accounts. Fortunately the bank was able to provide the company with copies of the bank statements. Bank statements should be maintained from examination to examination.

It is recommended that the company retain corporate records as required by s. Ins 6.80 (4), Wis. Adm. Code.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, loses company records, or the office building was destroyed to name a few contingencies. The company has somewhat developed a disaster recovery plan. The company backs up its network every morning on disk, which is kept in a fire proof safe. Also an outside source backs up the company's network weekly. If something happened to a key employee however no one would be able to step in. The company does not have any formal written policy for a disaster recovery plan. It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee.

Insurance Coverage

The examination noted that the company did have insurance coverage for professional liability, directors' and officers', and some crime/fidelity. However the company did not have any blanket employee dishonesty (i.e, fidelity bond), multi-peril insurance coverage. It is recommended that the company attain insurance coverage to adequately protect the assets of the company.

Premium

The company reported premium of \$187,164 on the annual statement. The examination determined that the company was only reporting premium for six groups on the annual statement instead of the twenty-four groups from which the company actually receives premium. The company received premium of \$204,575, which is a difference of \$17,411 from what was reported on the annual statement. It is recommended that the company report all premium that it receives on the annual statement pursuant to the NAIC Annual Statement Instructions. The examination also determined that the company should be including a \$15 service fee in with its written premium balance. Pursuant to an agreement Cyganiak Planning, Inc. will charge the policyholder, covered participants, or employer/member unit of a group enrollment agreement a maximum billing fee of \$15. Per 600.03 (38) Wis. Stat. "premium means any consideration for an insurance policy, and includes assessments, membership fees or other required contribution or considerations, however designated." Currently Cyganiak Planning, Inc. bills the groups and sends only the premium to ECW without the service fee. It is recommended that the company include the service fee with written premium.

Advance Premiums

The company has not been properly accounting for the premiums it receives. The company uses a list with the name of the subscribing groups. When the premium is received, the company checks it off the list to show that it has been paid, and the company proceeds to date stamp, write the check number and the date the check was written on a copy of the actual billing. There is no determination made with respect to the period the premium is to cover. The examination determined that the company had not established a liability account for premium received in advance of the coverage period and should have reported a liability balance of \$402 on the annual statement. This adjustment is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination." It is recommended again that the company establish a liability for premium received in advance and maintain records to verify the amount of such liability.

Premium Receivable

The examination determined that the company was not properly accounting for premium receivable nor was the company reporting the balance on the annual statement. The examiner determined the balance to be \$2,452. This adjustment is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination." It is recommended that the company establish a premium receivable account and report the balance on the annual statement pursuant to the NAIC Annual Statement Instructions.

Financial Statements

During the review of the annual statement several errors were noted. These errors are listed below:

- The jurat page did not list the officers and directors serving at the time.
- Report #2-Statement of Revenues, Expenses and Net Worth page of the annual statement included an extraordinary item for prior years depreciation of \$7,056. The company stated this was an accounting error not an extraordinary item. Accounting errors should not be reported in Report #2. Rather, they should be subtracted from retained earnings directly. For future reference, the NAIC Accounting Practice and Procedure Manual requires an accounting error to be reported as an adjustment to unassigned funds in the period that the error was discovered. The company's reporting understated the current year's income.
- Also, the company reported a net loss of \$(5,893) on the net income (loss) line. However the following page reported \$1,162 on the net income (loss) line. It should be the same number on both pages for future annual statements. Had the company properly recorded the accounting error noted previously both lines would have reported \$1,162.
- The examination noted that several questions were filled out incorrectly on the General Interrogatories page in the annual statement.
- NewSight Laser Network of Wisconsin, LLC (NewSight) is owned by the same parties that own ECW. An affiliate of a person means any other person who controls, is controlled by, or is under common control with the first person per s. Ins 600.03 Wis. Stat. Therefore a common control exists between the two companies. This qualifies NewSight as an affiliate of

ECW and should be included on the organization chart. Transactions occurred between the two companies that were not properly included on annual statement Schedule Y Part 1 or 2.

- The Notes to the Financial Statement do not appear to be adequately stated in the annual statement. These sections in the Notes did not include the proper information:
 - Organization And Operation
 - Property and Equipment
 - Related Parties
 - Retirement Plans and Deferred Compensation
- The Five-Year Historical Data page was not filled out properly.

It is recommended that the company properly fill out the annual statement per the NAIC Annual Statement Instructions.

The review of the Underwriting and Investment Exhibit in the annual statement disclosed that ECW and NewSight are commingling funds based on documentation provided by the company. This documentation shows miscellaneous income of \$29,224. Management represented that this results from a \$48,238 credit to reflect an advance to NewSight that was charged initially as an expense; then \$31,798 debit to reflect a loss from NewSight. The \$31,798 is shown as a reduction on the ECW income statement. All of this was recorded on ECW books. The examination also disclosed that ECW initially lent around \$100,000 to NewSight as start-up funds. The loan was intended to cover the purchase of equipment and payroll for the employees, however there is no formal agreement/note to support this or the loan to NewSight.

It needs to be emphasized that both companies need to maintain separate books and records. ECW is providing significant funding to NewSight, however it is the shareholders that stand to gain the most if the venture is successful. ECW would have reported higher net income from operations if the relationship was properly documented and accounted for. Per s. 617.21 (1), Wis. Stat. "neither an insurer authorized to do business in this state nor an affiliate of the insurer may enter into a transaction between the insurer and affiliate unless all the following apply:

- (a) The transaction at the time it is entered into is reasonable and fair to the interests of the insurer.

- (b) The books, accounts and records of each party to the transaction are kept in a manner that clearly and accurately disclosed the nature and details of the transaction and in accordance with generally accepted accounting principles permits ascertainment of charges relating to the transaction.”
- (c) The insurer’s surplus following any dividends or distributions to shareholders or a person having control of the insurer is reasonable in relation to the insurer’s outstanding liabilities and adequate to its financial needs.
- (d) The transaction complies with any other standard that the commissioner prescribes by rule.

The NewSight transaction does not appear to meet the criteria of (a) or (b) above. In addition, s. 617.21 (2), Wis. Stat. requires insurers to disclose material transactions to the Commissioner at least 30-days prior to the effective date and such transactions may be disapproved. ECW failed to comply with the reporting requirement. It is recommended that the company report and record transactions with affiliates as required by s. Ins 617.21, Wis. Stat.

Due to the lack of documentation the examination is writing down the advance to NewSight of \$(37,378) and writing up the loss from NewSight of \$31,798. These adjustments are reflected in the section of this report captioned “Reconciliation of Net Worth per Examination.”

Loans

The company loaned money to officers and former employees during the period under examination. The company was unable to provide adequate documentation verifying the loans. The company did not have any agreement for the loans nor were the loans getting paid back on a regular basis. It is recommended that the company discontinue investing in uncollateralized loans as required by s. Ins 6.20 (4b) Wis. Adm. Code. It is also recommended that the company have all loans approved by the board prior to lending. It is further recommended that the company have written agreements for all amounts loaned to be signed by both lender and receiver. Due to the lack of documentation balances totaling \$9,264 are being written down as follows:

- Accounts Receivable \$56
- Loans Receivable - Officers \$500
- Loans Receivable – Others \$5,336
- Loans Receivable – Mark Faby \$3,372

These adjustments are reflected in the section of this report captioned “Reconciliation of Net Worth per Examination.”

Underwriting

During the review of the company's benefit packets it was noted that company did not include a notice regarding confidentiality to medical records. It is recommended that the company provide notice to individuals about its privacy policies and practices and describe the conditions under which the company may disclose nonpublic personal health information and nonpublic personal financial information about individuals to affiliates and non-affiliated third parties pursuant to s. Ins 25.02 (a) and (b) Wis. Adm. Code.

Property and Equipment

The company was not depreciating property and equipment on a yearly basis using the useful life as stated in the NAIC Accounting Practices and Procedures Manual. Based on the information the examiner received the company is not keeping an accurate depreciation schedule. A depreciation schedule should list the purchase date, cost of the item, depreciation for the year, and the accumulated depreciation. This should be carried forward from year to year until the item is fully depreciated or is disposed of. It should be noted as of January 1, 2001 furniture, fixtures, application software and professional services for software development may not be included as admitted assets and is place in non-admitted assets on the annual statement. It is recommended that the company depreciate property and equipment on an yearly basis and use the useful life stated in the NAIC Accounting Practices and Procedure Manual and create an accurate depreciation schedule.

The examination also noted that the general ledger and annual statement agreed in total for property and equipment, however when each account was broken down the two did not agree. Due to the general ledger and annual statement not agreeing and the inadequate documentation the examiner is reclassing and writing down or up the accounts listed below:

- Office Furniture & Equipment is being reclassified \$1,748 and being written down \$(839).
- Computer Equipment is reclassified for \$1,818 and being written down \$(2,541).
- Reorganization Costs is reclassified \$(774) and being written down \$(4,755).
- Leasehold Improvements is reclassified \$(2,792) and written up \$527.

These adjustments are reflected in the section of this report captioned "Reconciliation of Net Worth per Examination."

Accounts Payable

During the examination it was determine that the company did have a liability account for accounts payable, however it was included in the claims payable liability. The examiner separated the two accounts and reclassified \$12,956 from claims payable to accounts payable. This reclass is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination." It is recommended that the company create an accounts payable account and place the balance on the correct line in the annual statement pursuant to the NAIC Annual Statement Instructions.

Claims Payable

Currently the company's system is unable to distinguish whether a claim is incurred by an LSHO enrollee or is incurred by a participant in one of the programs insured by UnitedHealthcare, Humana or Employers of Wausau for which ECW provides services. The annual statement requires ECW to report its operations on a line-of-business basis. It is recommended that the company develop a way to distinguish its direct business from the business for which ECW is a provider for another insurer in its claim system and properly report its experience by line-of-business in all future annual statements.

CPA Audit

The independent audit requirement of s. Ins 50.05, Wis. Adm. Code, has been waived in the past for ECW. Due to the numerous examination findings it is possible that the company could benefit from an independent audit. Revoking the waiver will be considered when the company formally responds to the recommendations made in this examination report.

Summary of Current Examination Results—Market Conduct

The market conduct examination was limited to reviewing for compliance with the prior recommendations.

Policy Form Filings

Eye Care of Wisconsin, Inc. (the Plan), is required by s. 631.20, Wis. Stat., to file with and receive approval by the Commissioner of any policy form prior to marketing. The Plan's master contract (MC-1) and certificate booklet (MH-1) were originally approved by OCI on June 10, 1987. Minor revisions were made to the master contract and approved by OCI on July 1, 1988. No amendments to the master contract or the certificate booklet have been made since 1988.

The examiner found that the Plan's master contract (MC-1) and certificate booklets (MH-1 and MH-9704) do not include language that complies with current Wisconsin insurance laws and rules. The language does not comply with the following:

1. Section 632.896, Wis. Stat., requires that if a policy provides coverage for dependent children of the insured, it must cover adopted children and children placed for adoption on the same terms and conditions as other dependent children. The definition of "Eligible Dependents" in the master contract and certificate booklet does not include language mandating coverage for adopted children.
2. Section 631.28, Wis. Stat., and s. Ins 6.85, Wis. Adm. Code, requires that every insurer disclose the insured's right to contact the Office of the Commissioner of Insurance regarding an insurance problem by providing a notice which is in the form prescribed in Appendix 2. The master contract and vision benefit booklets do not include the notice.

It is recommended that the Plan revise its master contract (MC-1) and certificate booklets (MH-1 and MH-9704) to comply with Wisconsin insurance laws and rules, and submit them to OCI within 90 days of the adoption of the examination report for review and approval as required by s. 631.20, Wis. Stat.

Marketing

Section Ins 3.27 (28), Wis. Adm. Code, requires that an insurer maintain a complete file containing every printed, published, or prepared advertisement of its policies being marketed. The Plan has an advertising file as required, however it does not include all of the company's

vision benefit booklets. It is recommended that each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its policies being marketed pursuant to s. Ins 3.27 (28) Wis. Adm. Code.

The examiner found that the one advertisement did not include a form number. Section Ins 3.27 (26), Wis. Adm. Code, requires that an advertisement which is an invitation to apply or an invitation to inquire and which is mass-produced be identified by a form number. It is again recommended that the Plan identify all advertisements by a form number as required by s. Ins 3.27 (26), Wis. Adm. Code.

The examiner found that the Plan's two advertisements did not include the Plan's complete corporate name. Section Ins 3.27 (12), Wis. Adm. Code, provides that the identity of the insurer be made clear in all of its advertisements. It is again recommended that the Plan use its corporate name, Eye Care of Wisconsin, Inc., in all of its advertisements as required by s. Ins 3.27 (12), Wis. Adm. Code.

VII. CONCLUSION

The examiner's review of the company's accounts led to fifteen adjustments, resulting in an increase in surplus of \$2,061. Surplus per the examination is \$127,866. There are three reclassifications due to the annual statement and general ledger not agreeing, the company combining two liability accounts and not separating a restricted certificate of deposit.

The prior examination resulted in sixteen financial and four market conduct recommendations. The company did not comply with eight and partially complied with one of the financial and market conduct recommendations. The current examination resulted in thirty-seven financial and four market conduct recommendations, the majority of which pertained to management and control and corporate records. Most of the deficiencies identified in this report related to lack of familiarity with applicable regulatory requirements for LSHO insurers. This office will consider the need for an independent audit after the company submits its response to the examination recommendations.

The LSHO's letter of credit meets the capital and compulsory surplus requirements. Overall the company has been operating at break-even. The company's revenues and expenses increased considerably in 1999 due to the combining of IAO and ECW's operations when the LSHO converted to a stock insurance company. The company's member enrollment was growing from 1995 to 1998, but dropped by 13% in 1999. It increased again by 15% in 2000. Member enrollment was 6,727 at December 31, 2000. This is an increase of 105% from 1995.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Financial

1. Page 23 - Management and Control—It is recommended that the company update its articles of incorporation and file an amendment to Article VIII concerning the location of its corporate.
2. Page 23 - Management and Control—It is recommended that the company keep its bylaws up to date and file any amendments to their bylaws with the commissioner pursuant to s. Ins 611.12 (4) Wis. Stat.
3. Page 23 - Management and Control—It is again recommended that the company hold its annual meeting in accordance with its bylaws.
4. Page 23 - Management and Control—It is again recommended that directors be elected to the board of directors on an annual basis at the company's annual meeting in conformity with company bylaws and with s. 611.52 (2), Wis. Stat.
5. Page 24 - Conflict of Interest—It is again recommended that the company adopt a system for conflict of interest disclosure, that conflict of interest questionnaires be completed annually by officers, directors, and key employees, and that completed disclosure forms be retained in company records from examination to examination.
6. Page 24 - Affiliated Companies—It is recommended that the company file the required information on Form B and on Form C pursuant to s. 617.11, Wis. Stat. and s. Ins 40.15 Wis. Adm. Code.
7. Page 25 - Affiliated Companies—It is recommended that the company formally execute cost-sharing agreements with affiliates for allocation and/or sharing of expenses.
8. Page 25 - Corporate Records—It is recommended that the company have complete, signed copies of all currently active agreements and that the company maintains these agreements.
9. Page 25 - Corporate Records—It is recommended that employee benefits be discussed and approved by the board prior to payment.
10. Page 26 - Business Plan—It is recommended that the company file with the Commissioner of Insurance all amendments and modifications to its business plan in compliance with s. Ins 9.06 (1), Wis. Adm. Code.
11. Page 26 - Budget—It is recommended that the company develop management reports that compare budget estimates to actual figures.
12. Page 26 - Cash—It is recommended that the company review its procedures requiring two signatures on all checks that exceed a stated amount.
13. Page 27 - Cash— It is recommended that the company discontinue the practice of pre-sign blank checks.
14. Page 27 - Cash—It is recommended that the company identify and verify reconciling items on a timely basis.

15. Page 27 - Cash—It is again recommended that the company comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for one year.
16. Page 27 - Cash—It is recommended that checks that have not cleared or have been voided remain on the outstanding checklist until they have either cleared the bank, been voided and reissued, or are placed in a liability account for unclaimed funds.
17. Page 28 - Cash—It is recommended that the company fill out Schedule E-2 of the annual statement correctly and list special deposits which are not for the benefit of all policyholders, claimants and creditors of the company as required by the NAIC Annual Statement Instructions.
18. Page 28 - Cash—It is recommended that the company report a petty cash account on the trial balance.
19. Page 28 - Investment Income—It is recommended that the company establish procedures to properly accrue for investment income.
20. Page 28 - Investment Income—It is recommended that the company report its investment income receivable on the correct line on the annual statement in state accordance with the NAIC Annual Statement Instructions.
21. Page 28 - Investment Income—It is further recommended that the company fill out Schedule F pursuant to the NAIC Annual Statement Instructions.
22. Page 29 - Accounts and Records—It is recommended that the company retain corporate records as required by s. Ins 6.80 (4) Wis. Adm. Code.
23. Page 29 - Disaster Recovery Plan—It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee.
24. Page 29 - Insurance Coverage—It is recommended that the company attain insurance coverage to adequately protect the assets of the company
25. Page 30 - Premium— It is recommended that the company report all premium that it receives on the annual statement pursuant to the NAIC Annual Statement Instructions.
26. Page 30 - Premium— It is recommended that the company include the service fee with written premium.
27. Page 30 - Advance Premium—It is recommended again that the company establish a liability for premium received in advance and maintain records to verify the amount of such liability.
28. Page 31 - Premium Receivable— It is recommended that the company establish a premium receivable account and report the balance on the annual statement pursuant to the NAIC Annual Statement Instructions.
29. Page 32 - Financial Statements—It is recommended that the company properly fill out the annual statement per the NAIC Annual Statement Instructions.

30. Page 33 - Financial Statements—It is recommended that the company report and record transactions with affiliates as required by s. Ins 617.21 Wis. Stat.
31. Page 33 - Loans—It is recommended that the company discontinue investing in uncollateralized loans as required by s. Ins 6.20 (4b) Wis. Adm. Code.
32. Page 33 - Loans—It is also recommended that company have all loans approved by the board prior to lending.
33. Page 33 - Loans—It is further recommended that the company have written agreements for all amounts loaned to be signed by both lender and receiver.
34. Page 34 - Underwriting—It is recommended that the company provide notice to individuals about its privacy policies and practices and describe the conditions under which the company may disclose nonpublic personal health information and nonpublic personal financial information about individuals to affiliates and non-affiliated third parties pursuant to s. Ins 25.02 (a) and (b) Wis. Adm. Code.
35. Page 34 - Property and Equipment—It is recommended that the company depreciate property and equipment on an yearly basis and use the useful life stated in the NAIC Accounting Practices and Procedure Manual.
36. Page 35 - Accounts Payable—It is recommended that the company create an accounts payable account and place the balance on the correct line in the annual statement pursuant to the NAIC Annual Statement Instructions.
37. Page 35 - Claims Payable—It is recommended that the company develop a way to distinguish its direct business from the business for which ECW is a provider for another insurer in its claim system and properly report its experience by line-of-business in all future annual statements.

Market Conduct

- M1. Page 36 - Policy Form Filings—It is recommended that the Plan revise its master contract (MC-1) and certificate booklet (MH-1 and MH-9704) to comply with Wisconsin insurance laws and rules, and submit them to OCI within 90 days of the adoption of the examination report for review and approval as required by s. 631.20, Wis. Stat.
- M2. Page 37 - Marketing—It is recommended that each insurer shall maintain at its home or principle office a complete file containing every printed, published or prepared advertisement of its policies being marketed pursuant s. Ins 3.27 (28) Wis. Adm. Code.
- M3. Page 37 - Marketing—It is again recommended that the Plan identify all advertisements by a form number as required by s. Ins 3.27 (26), Wis. Adm. Code.
- M4. Page 37 - Marketing—It is again recommended that the Plan use its corporate name, Eye Care of Wisconsin, Inc., in all of its advertisements as required by s. Ins 3.27 (12), Wis. Adm. Code.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Rebecca Easland	Insurance Financial Examiner

Respectfully submitted,

Lori Cretney
Examiner-in-Charge

EXHIBIT A

Participating Providers

The LSHO currently contracts with the following participating providers in Wisconsin:

<u>Providers</u>	<u>Location</u>	<u>Providers</u>	<u>Location</u>
Richard Anderson, O.D.	Abbotsford	Thomas R. Steinhauer	Madison
John & Susan Gorz, O.D.	Algoma and Kewaunee	Roger Zimmerman, O.D.	Madison
Susan Gorz, O.D.	Algoma and Kewaunee	David S. Black, O.D.	Manitowoc and Two Rivers
Richard A. Kjome, O.D.	Antigo	James W. Hanson, O.D.	Manitowoc and Two Rivers
Richard Davison, O.D.	Appleton and Green Bay	John T. Carns, O.D.	Marinette
Robert C. Schulz, O.D.	Appleton	Steven L. Nottleson, O.D.	Marinette
Bradley J. Jorgensen, O.D.	Appleton	George Boling, O.D.	Mayville
Dennis R. Soderberg, O.D.	Baldwin and Glenwood City	Perry Arndt, O.D.	Medford
Chad A. Johnson, O.D.	Baraboo	Jeffery R. Bourgerie, O.D.	Medford
Ann Cashin, O.D.	Bayside-Foxpoint, Fredonia, and Mequon	Charles Burgess, O.D.	Menasha
Patrick Cashin, O.D.	Bayside – Foxpoint, Fredonia and Mequon	Stephen Pralle, O.D.	Menomonee Falls
Kevin Harry, O.D.	Bayside – Foxpoint and Brookfield	Peter D. Bergenske, O.D.	Middleton
Eric Pederson, O.D.	Bayside – Foxpoint, Fredonia, and Mequon	Victor J. Connors, O.D.	Middleton
Charles P. Hendrix, O.D.	Beaver Dam	Sidney Nelson, O.D.	Milwaukee - Downtown
David E. Johanknecht, O.D.	Berlin	Marvin Shefrin, O.D.	Milwaukee - North
Gregory Foster, O.D.	Black River Falls	Stephen Nebel, O.D.	Milwaukee - North
James G. Springer, O.D.	Bloomer	George Hanson, O.D.	Milwaukee - Northwest
Claudia J. Springer, O.D.	Bloomer	Jack Bylan, O.D.	Milwaukee - South
Charles Niebler, O.D.	Brookfield and Milwaukee - Northwest	Stephen Wacławski, O.D.	Milwaukee - South
Amy Bell, O.D.	Brookfield, Menomonee Falls, and Wauwatosa	Mary L. Szczygiel, O.D.	Milwaukee - Southwest
Eyesite	Burlington	Jerry Stern, O.D.	South Milwaukee
Robert Fait, O.D.	Burlington	David L. Kjelland, O.D.	Mineral Point
Jon McKinney, O.D.	Burlington and Two Rivers	Dennis E. Farrar, O.D.	Monona and Oregon
Anthony Schlaefel, O.D.	Campbellsport	Lynda F. Farrar, O.D.	Monona and Oregon

Ann T. Schlaefer, O.D.	Campbellsport	David James, O.D.	Monona and Oregon
Susan Orvis, O.D.	Cedarburg	Peter Mueller, O.D.	Monroe
Gary Walters, O.D.	Cedarburg	Kathi L. Leach, O.D.	Mosinee and Pittsville
James G. Springer, O.D.	Chetek	Richard Pearson, O.D.	Mukwonago
Gary J. Burkhardt, O.D.	Chilton	Daniel DeWinter, O.D.	Muskego
James B. Kivlin, O.D.	Clear Lake and Menomonie	Thomas C. Rued, O.D.	Neenah
Dean A. Barrette, O.D.	Cudahy	Randy J. Wild, O.D.	Neenah
Richard Miller, O.D.	Cudahy	Gregory Foster, O.D.	Neillsville
Jennifer Jacobson-Turcott, O.D.	Cumberland and Frederic	Wayne R. Busick, O.D.	Nekoosa and Pittsville
Lee R. Jacobson, O.D.	Cumberland and Frederic	William Myers, O.D.	New Berlin
Paul C. Lueck, O.D.	Darlington and Monroe	Jack Thorpe, O.D.	New Berlin
Julila B. Edwards, O.D.	DeForest	Kerry L. Griebenow, O.D.	New London
J. Kenneth Morrison, O.D.	Delavan	Mark Dagenais, O.D.	Oconomowoc
Gary Lukes, O.D.	Durland and Spring Valley	Thomas Marsh, O.D.	Oconomowoc
Gerald Koskinen, O.D.	East Troy	Randy J. Prestash, O.D.	Oconomowoc
Michael J. Long, O.D.	Edgerton and Milton	Harry A. Beck, O.D.	Osceola
John Hall, O.D.	Elkhorn	Richard Ames, O.D.	Oshkosh
Edward Slattery, O.D.	Elkhorn	Greg F. Jensen, O.D.	Oshkosh
Thomas Motisi, O.D.	Elm Grove and New Berlin	Geffrey J. Marsh, O.D.	Oshkosh
Mark Spankowski, O.D.	Elm Grove and New Berlin	Sandra J. Maley, O.D.	Phillips
Jacob L. Schoenenberger, O.D.	Evansville	Timothy Ziegler, O.D.	Plymouth
Amy Treichel Brandt, O.D.	Fond Du Lac	Cheryl Ziegler, O.D.	Plymouth
Dean A. Delwiche, O.D.	Fond Du Lac	Sharon Roberts, O.D.	Plymouth
Brian Hammes, O.D.	Fond Du Lac and New Holstein	Myron Praeger, O.D.	Port Washington
Mary Jo Pierce, O.D.	Fond Du Lac and New Holstein	Thomas M. McWilliams, O.D.	Prairie DuChien
James R. Richter, O.D.	Fond Du Lac and New Holstein	Lynn McWilliams, O.D.	Prairie DuChien
Carmen M. Alfonso-Kneiart, O.D.	Fort Atkinson	Steven Drake, O.D.	Pulaski
Jeffery F. Kneiart, O.D.	Fort Atkinson	Dean Rosenberg, O.D.	Racine
Steven R. Marion, O.D.	Fort Atkinson	Roger Rosenberg, O.D.	Racine
Allen Eye Care Associates	Franklin and Racine	Robert Savaglio, O.D.	Racine
Greg Matus, O.D.	Franklin	Bruce A. Savin, O.D.	Racine
Ronald Kuehl, O.D.	Friendship and Stevens Point	Ricki D. Andersen, O.D.	Racine
Chris Hanson, O.D.	Germantown	Donna M. Brunello, O.D.	Racine
Steven P. Drake, O.D.	Gillett	Philip J. Hasler, O.D.	Reedsburg
Lynn Carli, O.D.	Green Bay	John Guelig, O.D.	Richland Center
John G. Knuth, O.D.	Green Bay	William J. Stern, O.D.	Shawano
Janson A. Mancheski, O.D.	Green Bay	Cheryl Roers, O.D.	Sheboygan
Francis J. Moes, O.D.	Green Bay	Andrew Lavey, O.D.	Sheboygan
Timothy J. Pease, O.D.	Green Bay	Jessica Entringer, O.D.	Sheboygan
Melanie A. Reimer, O.D.	Green Bay	H. Charles Lindman, O.D.	Sheboygan Falls

Paul Godich, O.D.	Hales Corners	Sheryl P. Lindman, O.D.	Sheboygan Falls
Scott Kenitz, O.D.	Hartford	Steven Rollins, O.D.	Stevens Point
Tim Seifert, O.D.	Hartford	J. Eric Paulsen, O.D.	Sturgeon Bay
Kevin E. Jacobson, O.D.	Hayward and Rice Lake	Richard E. Wiesner, O.D.	Sturgeon Bay and Washington Island
David Kisiolek, O.D.	Howards Grove	Dr. Richard Wright	Sun Prairie
Garth N. Christenson, O.D.	Hudson	Christopher Winter, O.D.	Sussex
Jeffrey L. Byers, O.D.	Iola and Waupaca	Andrea L. Parisi, O.D.	Waterford
Mary Jo Byers, O.D.	Iola, Mosinee, and Waupaca	Douglas Nehs, O.D.	Waukesha
Wayne R. Busick, O.D.	Iola	Shane Solberg, O.D.	Waukesha
H. Tucker Webb III, O.D.	Janesville and Portage	Alfred Waltke, O.D.	Waukesha
Craig L. Nevermann, O.D.	Jefferson	Jack H. Brueckner, O.D.	Waupaca
Mark A. Ebben, O.D.	Kaukauna	Dan Everts, O.D.	Waupaca
Robert Bower, O.D.	Kenosha	Daniel L. Gauerke, O.D.	Waupaca
Peter L. Emer, O.D.	Kenosha	Robert J. Alexejun, O.D.	Wausau
Stephen J. Pruettt, O.D.	Kenosha and Racine	Gregory L. Leischer, O.D.	Wausau
John Regner, O.D.	Kenosha	Brian L. Meckelberg, O.D.	Wautoma
Jeffrey Thomas, O.D.	Kenosha	Nicole Amidon, O.D.	Wauwatosa
Sandra Hamilton, O.D.	Kiel and Sheboygan	Rhonda Blake, O.D.	Wauwatosa
Wayne E. Wall, O.D.	Kiel and Sheboygan	Barry Dahigren, O.D.	West Allis
Adrian P. Ebben, O.D.	Kimberly	Marcus Neitzke, O.D.	West Allis
Richard Foss, O.D.	LaCrosse	James Weber, O.D.	West Allis
Erik A. Ostenso, O.D.	Ladysmith	Eric Knight, O.D.	West Allis
Ladd F. Koresch, O.D.	Lake Geneva	Yale Knight, O.D.	West Allis
James D. Sherry, O.D.	Lancaster	Dave Ziegler, O.D.	West Allis
John E. Salisbury, O.D.	Little Chute	Jerry A. Olson, O.D.	West Bend
John Bonsett-Veal, O.D.	Madison	Todd Wild, O.D.	Weyauwega
David Dorsey, O.D.	Madison and Richland Center	Jeanne Sengstock	Weyauwega
Frederic T. Gordon, O.D.	Madison	Gerald Theune, O.D.	Whitewater
Scott A. Jens, O.D.	Madison	Jeffrey Marsh, O.D.	Winneconne

EXHIBIT B

